

Testimony prepared and given by Jim Miller, LIAM, House Insurance Committee, 11-6-14

Principle-Based Reserves or PBR

Over the past seven years, state regulators, with the support of the life insurance industry and the actuarial profession, have developed a new method for calculating life insurance policy reserves. The new, principle-based reserves (PBR) approach would enhance the current system for calculating policy reserves, resulting in reserve levels that more accurately reflect risks assumed by life insurers for the policies they underwrite.

About Reserves

Life insurers set aside capital—called reserves—to ensure they will be able to pay all expected claims. State insurance regulators closely monitor reserves and take action if a company's reserve levels jeopardize policyholders' interests.

Today, life insurance reserves are calculated based on fixed formulas prescribed by state insurance laws and regulations. However, many regulators and life insurance companies believe that reserve requirements need to evolve in order to keep pace with new product designs.

The formulaic approach hampers regulators' ability to update reserve rules as new designs are introduced. The current system also locks in certain assumptions used to calculate reserves when a policy is first

been adopted in 42 U. S. jurisdictions that account for at least 75 percent of U. S. life insurance premiums combined.

This will ensure that states apply the approach at the same time.

The Valuation Manual, which was approved by the NAIC in 2012, spells out the steps life insurers and regulators will take to determine reserve levels under PBR. The NAIC will update the manual regularly so that PBR sets appropriate reserve levels for new product designs.

State adopting the model law also must update their Standard Nonforfeiture Laws. These laws provide requirements for minimum benefit values for certain policies that are surrendered or lapse. The updates refer to the Standard Valuation Law and the new Valuation Manual as the source of mortality and interest rates used in nonforfeiture calculations. They do not affect the current calculation of nonforfeiture values.

To help state insurance regulators adjust to the new approach, PBR will be phased-in for three years after it is operational.

LIAM, the Life Insurance Association of Michigan will be supporting a bill hopefully coming to this committee next week implanting PBR into the Insurance Code. We would ask you to consider supporting and passing this bill allowing Michigan to become one of the 42 states needed to allow the new Valuation Manual to become operative.

Thanks you Mr. Chairman, members and I would take questions.